

CITY OF EFFINGHAM, KANSAS

STATUTORY BASIS FINANCIAL STATEMENTS
For the year ended December 31, 2010

And

INDEPENDENT AUDITORS' REPORT

Long CPA, PA
A Professional Association
Certified Public Accountants

CITY OF EFFINGHAM, KANSAS

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report on Financial Statements	1-2
Statement 1	
Summary of Cash Receipts, Expenditures and Unencumbered Cash	3
Statement 2	
Summary of Expenditures - Actual and Budget	4
Statement 3	
Statement of Cash Receipts and Expenditures - Actual and Budget	
General Fund	5
Bond and Interest Fund	6
Fire Equipment Fund	7
Employee Benefit Fund	8
Streets Fund	9
Library Fund	10
Fire Station Fund	11
Water Utility Fund	12
Sewer Utility Fund	13
Pool Fund	14
Statement of Cash Receipts and Expenditures - Nonbudgeted Funds	15
Notes to Financial Statements	16-24

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P.O. Box 94
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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

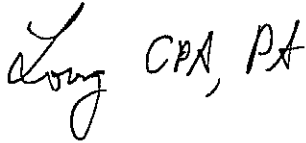
We have audited the financial statements of the individual funds of the City of Effingham, Kansas, as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonable determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2010, or the changes in its financial position for the year then ended.

In our opinion the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City, as of December 31, 2010, and its cash receipts and expenditures, budgetary comparisons, and changes in long-term debt and long-term debt maturities for the year then ended, on the basis of accounting described in Note 1.

A handwritten signature in black ink that reads "Long CPA, PA". The signature is written in a cursive, flowing style.

Long CPA, PA
A Professional Association
Certified Public Accountant

June 23, 2011

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS
Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2010

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustments to Comply with Legal Max</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Governmental Type Funds</u>						
General Funds						
General	\$ 315,112	\$ 0	0	\$ 315,112	\$ 226,016	\$ 89,096
Special Revenue Funds						
Fire Equipment	18,265	0	0	18,265	16,613	1,652
Employee Benefits	32,128	0	0	32,128	22,803	9,325
Streets	260,750	0	0	260,750	52,350	208,400
Library	8,397	0	0	8,397	7,355	1,042
Fire Station	2,982	0	0	2,982	1,417	1,565
Debt Service Funds						
Bond and Interest	34,751	0	0	34,751	29,163	5,588
Proprietary Type Funds						
Water Utility	277,930	0	0	277,930	158,937	118,993
Sewer Utility	139,849	0	0	139,849	37,722	102,127
Pool	75,193	0	0	75,193	74,931	262

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS
GENERAL FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 106,777	\$ 119,363	\$ (12,586)
Delinquent tax	1,281	1,900	(619)
Motor vehicle tax	15,463	17,747	(2,284)
RV tax	242	334	(92)
16/20M vehicle tax	242	365	(123)
Franchise fees	18,646	23,000	(4,354)
Sales tax	53,370	90,000	(36,630)
City/County revenue sharing			0
Interest income	259		259
Miscellaneous revenues	18,247		18,247
Operating transfers			0
	<u>214,527</u>	<u>252,709</u>	<u>(38,182)</u>
EXPENDITURES			
General government			
Personnel services	79,738	63,000	(16,738)
Commodities	44,817	60,000	15,183
Contractual	46,279	50,000	3,721
County sales tax	21,344	40,000	18,656
Highways and streets		20,000	20,000
Neighborhood revitalization rebate		7,112	7,112
Capital outlay		40,000	40,000
Operating transfers	33,838	35,000	1,162
Adjustment for qualifying budget credits			0
	<u>226,016</u>	<u>\$ 315,112</u>	<u>\$ 89,096</u>
Receipts Over (Under) Expenditures	(11,489)		
Unencumbered Cash, Beginning	159,875		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>148,386</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS
BOND AND INTEREST FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 21,586	\$ 24,129	\$ (2,543)
Delinquent tax	372	600	(228)
Motor vehicle tax	4,675	5,355	(680)
RV tax	72	101	(29)
16/20M vehicle tax	73	110	(37)
Interest income	24		24
Miscellaneous revenues			0
Operating transfers			0
	<u>26,802</u>	<u>30,295</u>	<u>(3,493)</u>
Total Cash Receipts			
EXPENDITURES			
General administration		5,146	5,146
Debt service	29,163	29,605	442
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>29,163</u>	<u>\$ 34,751</u>	<u>\$ 5,588</u>
Total Expenditures			
Receipts Over (Under) Expenditures	(2,361)		
Unencumbered Cash, Beginning	5,478		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 3,117</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS
 FIRE EQUIPMENT FUND
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 9,428	\$ 10,538	\$ (1,110)
Delinquent tax	218	400	(182)
Motor vehicle tax	2,799	3,158	(359)
RV tax	43	59	(16)
16/20M vehicle tax	45	65	(20)
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>12,533</u>	<u>14,220</u>	<u>(1,687)</u>
EXPENDITURES			
General administration	3,470	4,265	795
Capital outlay	13,143	14,000	857
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>16,613</u>	<u>\$ 18,265</u>	<u>\$ 1,652</u>
Receipts Over (Under) Expenditures	(4,080)		
Unencumbered Cash, Beginning	6,110		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 2,030</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS
 EMPLOYEE BENEFIT FUND
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 19,267	\$ 21,538	\$ (2,271)
Delinquent tax	250	500	(250)
Motor vehicle tax	3,187	4,064	(877)
RV tax	53	77	(24)
16/20M vehicle tax	32	84	(52)
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>22,789</u>	<u>26,263</u>	<u>(3,474)</u>
EXPENDITURES			
Payroll taxes	9,867	10,628	761
Retirement		4,000	4,000
Health Insurance	12,936	14,000	1,064
Workman's compensation		3,500	3,500
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>22,803</u>	<u>\$ 32,128</u>	<u>\$ 9,325</u>
Receipts Over (Under) Expenditures	(14)		
Unencumbered Cash, Beginning	14		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 0</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS
STREETS FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 8,591	\$ 9,603	\$ (1,012)
Delinquent tax	144	200	(56)
Motor vehicle tax	1,763	1,871	(108)
RV tax	27	35	(8)
16/20M vehicle tax	34	38	(4)
Fuel tax	15,361	16,610	(1,249)
Sales tax	24,232	26,000	(1,768)
Bond proceeds			0
Interest income		1,000	(1,000)
Miscellaneous revenues			0
Operating transfers			0
Total Cash Receipts	<u>50,152</u>	<u>55,357</u>	<u>(5,205)</u>
EXPENDITURES			
Street project			0
Streets	52,350	260,750	208,400
Operating transfers			0
Adjustment for qualifying budget credits			0
Total Expenditures	<u>52,350</u>	<u>\$ 260,750</u>	<u>\$ 208,400</u>
Receipts Over (Under) Expenditures	(2,198)		
Unencumbered Cash, Beginning	104,008		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 101,810</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS
LIBRARY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 6,392	\$ 7,144	\$ (752)
Delinquent tax	72	120	(48)
Motor vehicle tax	863	990	(127)
RV tax	14	19	(5)
16/20M vehicle tax	14	20	(6)
Federal grants			0
State aid/grants			0
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>7,355</u>	<u>8,293</u>	<u>(938)</u>
EXPENDITURES			
General government	7,355	8,397	1,042
Capital outlay			0
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>7,355</u>	<u>\$ 8,397</u>	<u>\$ 1,042</u>
Receipts Over (Under) Expenditures	-		
Unencumbered Cash, Beginning	0		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u><u>0</u></u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS
 FIRE STATION FUND
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2010

	Actual	Budget	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Utility reimbursements	\$ 1,625	\$ 1,000	\$ 625
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>1,625</u>	<u>1,000</u>	<u>625</u>
Total Cash Receipts	<u>1,625</u>	<u>1,000</u>	<u>625</u>
EXPENDITURES			
General government	1,417	2,982	1,565
Capital outlay			0
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>1,417</u>	<u>2,982</u>	<u>1,565</u>
Total Expenditures	<u>1,417</u>	<u>\$ 2,982</u>	<u>\$ 1,565</u>
Receipts Over (Under) Expenditures	208		
Unencumbered Cash, Beginning	2,707		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 2,915</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS
WATER UTILITY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Charges for services	\$ 127,465	\$ 130,000	\$ (2,535)
Interest income	226	1,000	(774)
Miscellaneous revenues			0
Operating transfers			0
	<u>127,691</u>	<u>131,000</u>	<u>(3,309)</u>
Total Cash Receipts			
EXPENDITURES			
Production			
Personnel services	35,320	30,000	(5,320)
Commodities	18,368	30,000	11,632
Contractual	30,891	45,000	14,109
Capital outlay	9,520	100,000	90,480
Debt service	52,838	52,930	92
Operating transfers	12,000	20,000	8,000
Adjustment for qualifying budget credits			0
	<u>158,937</u>	<u>\$ 277,930</u>	<u>\$ 118,993</u>
Total Expenditures			
Receipts Over (Under) Expenditures	(31,246)		
Unencumbered Cash, Beginning	221,158		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 189,912</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS
SEWER UTILITY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Charges for services	\$ 56,226	\$ 67,000	\$ (10,774)
Interest income	125	5,000	(4,875)
Miscellaneous revenues			0
Operating transfers			0
	<u>56,351</u>	<u>72,000</u>	<u>(15,649)</u>
Total Cash Receipts			
EXPENDITURES			
Production			
Personnel services	14,181	20,000	5,819
Commodities	7,579	30,000	22,421
Contractual	1,637	25,000	23,363
Capital outlay	229	50,000	49,771
Debt service	14,096	14,849	753
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>37,722</u>	<u>\$ 139,849</u>	<u>\$ 102,127</u>
Total Expenditures			
Receipts Over (Under) Expenditures	18,629		
Unencumbered Cash, Beginning	104,812		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 123,441</u>		

The notes to financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS
 POOL FUND
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2010

	Actual	Budget	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Charges for services	\$ 19,275	\$ 10,000	\$ 9,275
Interest income			0
Miscellaneous revenues	7,202	5,000	2,202
Operating transfers	<u>25,838</u>	<u>55,000</u>	<u>(29,162)</u>
Total Cash Receipts	<u>52,315</u>	<u>70,000</u>	<u>(17,685)</u>
EXPENDITURES			
Recreation			
Personnel services	17,704	10,000	(7,704)
Commodities	6,105	10,081	3,976
Contractual			0
Capital outlay			0
Debt service	51,122	55,112	3,990
Operating transfers			0
Adjustment for qualifying budget credits			<u>0</u>
Total Expenditures	<u>74,931</u>	<u>\$ 75,193</u>	<u>\$ 262</u>
Receipts Over (Under) Expenditures	(22,616)		
Unencumbered Cash, Beginning	27,292		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 4,676</u>		

The notes to financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS
 ANY NONBUDGETED FUNDS
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2010

	Sewer Improvement Fund	Component Unit: Library
CASH RECEIPTS		
Federal grants	\$	\$ 0
State aid/grants		10,160
City appropriation		6,707
Donations		3,212
Interest income		31
Miscellaneous revenues		80
Operating transfers		
	<u>0</u>	<u>20,190</u>
EXPENDITURES		
Operations		
Personnel services		9,669
Commodities		9,178
Contractual		
Capital outlay		
Operating transfers		
Adjustment for qualifying budget credits		
	<u>0</u>	<u>18,847</u>
Receipts Over (Under) Expenditures	0	1,343
Unencumbered Cash, Beginning	10	10,298
Prior Year Cancelled Encumbrances	<u>0</u>	<u>0</u>
Unencumbered Cash, Ending	<u>\$ 10</u>	<u>\$ 11,641</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EFFINGHAM, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Effingham is a municipal corporation governed by an elected six member council. The City as an entity has been defined to include, on a combined basis, (a) the City of Effingham, Kansas (b) organizations for which the City of Effingham, Kansas is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the City of Effingham, Kansas are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are currently no organizations which meet the foregoing criteria for being combined in the City's report.

Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City for the year 2010:

Governmental Funds

General Fund - To account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by law or administrative action to be expended for specified purposes.

Debt Service Funds – To account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt.

CITY OF EFFINGHAM, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Proprietary Funds

Enterprise Funds – to account for operations that are financed and operated in a manner similar to private business enterprises—where stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges—or where periodic determinations of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

Departure from Generally Accepted Accounting Principles (GAAP)

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursement, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principle and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with United States generally

CITY OF EFFINGHAM, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Departure from Generally Accepted Accounting Principles (Continued)

accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

Discretely Presented Component Unit

The component unit section of the financial statements includes the financial data of the discretely presented component unit. This component unit is reported separately to emphasize that it is legally separate from the City. The governing body of this component unit is appointed by the City.

Effingham Community Library

The Effingham Community Library operates the City's public library. The City annually levies a tax for the Library. The accounting policies of the Effingham Community Library are the same as those of the City.

Reimbursed Expenses

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

Budgetary Information

Kansas Statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

CITY OF EFFINGHAM, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Budgetary Information (continued)

1. Preparation of the budget for the succeeding calendar year on or before August 1st
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenues other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. No budgets amendments were noted for the current year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting. Revenues are recognized when measurable and available to finance current year expenditures. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital projects funds, trust funds and the following special revenue funds: 1) Capital Improvement Fund, 2) Equipment Reserve Fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

CITY OF EFFINGHAM, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as expenditures.

NOTE 2 – Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the government. The statute requires banks eligible to hold the government's funds have a main or branch bank in the county in which the government is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The government has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the government's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The government has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the government may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. State statutes require the government's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2010.

CITY OF EFFINGHAM, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (Continued)

Custodial Credit Risk – Deposits (continued)

At December 31, 2010, the government's carrying amount of deposits was \$ 591,995 and the bank balance was \$ 603,295. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by federal depository insurance. Of the remaining balance, \$ 353,295 was collateralized with securities held by the pledging financial institutions' agents in the government's name.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 – Defined Benefit Pension Plan

Plan Description – The City of Effingham, Kansas participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas; Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy – K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contributions rate be determined annually based on the results of an annual actuarial valuation. KPERS are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for 2010 is 7.74%. The City of Effingham Kansas employer contributions to KPERS for the years ended December 31, 2010, 2009, and 2008, were \$4,958, \$4,558, and \$3,785, respectively, equal to the statutory required contributions for each year.

CITY OF EFFINGHAM, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the City carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 5 – Compliance with Kansas Statutes

We noted no violations of Kansas Statutes during the period under audit.

NOTE 6 – Compensated Absences

Sick leave is available to all full time employees of the District and accrues at the rate of 10 days per year. Vacation leave is available for full time employees and is based on the number of years of service. One to three years of service employees receive one week of vacation. Four to fifteen years of service employees receive two weeks of vacation. Sixteen to twenty years of service employees receive three weeks of vacation. Employees with more than twenty years of service receive four weeks of vacation. Part time employees accrue sick leave at a rate of five days per year. No vacation time is given for part time employees. Payment is received by terminating employees with unused vacation or sick leave. The District has not computed or recorded this potential liability.

NOTE 7 – Interfund Transactions

Operating transfers were as follows:

From	To	Statutory Authority	Amount
Water	Pool	K.S.A. 12-825d	\$ 12,000
General	Pool Project	K.S.A. 12-1118	20,000
General	Pool	K.S.A. 79-2526	13,838

CITY OF EFFINGHAM, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – Capital Projects

The City has begun a swimming pool project to rehabilitate and update the city pool. The City issued revenue bonds in the amount of \$ 565,000 for the project in December of 2008. The bonds mature in 2029 and carry an interest rate between 3.75% and 5.5%.

The City began a water improvement project with funding through the Kansas Public Water Supply Fund. Bids for the project totaled \$ 1,041,807 for the water tower and system improvements.

NOTE 9 – Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

NOTE 10 – Subsequent Events Review

Subsequent events for management's review have been evaluated through June 23, 2011. The date in the prior sentence is the date the financial statements were available to be issued.

NOTE 11 – Long Term Debt

The schedule of long term debt and current maturities for the next five years is detailed in the following schedule.

CITY OF EFFINGHAM, KANSAS
Statement of Changes in Long-Term Debt
For the Year Ended December 31, 2010

Note 11 - Long Term Debt
Changes in long-term liabilities for the City for the year ended December 31, 2010 were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds										
Street Improvements	3.47%	3/1/04	\$ 245,314	9/1/14	\$ 135,000	\$	\$ 25,000	\$ (25,000)	\$ 110,000	\$ 4,605
Revenue Bond										
Pool	3.75%-5.5%	12/2/08	565,000	10/15/29	565,000			0	565,000	51,121
KDHE Loan:										
Kansas Water Pollution Control Revolving Fund # 2461	3.39%	4/17/07	741,000	4/17/27	620,535	115,673	29,862	85,811	706,346	20,603
Kansas Water Pollution Control Revolving Fund # 131801	3.19%	8/23/99	218,300	8/31/20	129,910		10,031	(10,031)	119,879	3,747
Total Long Term Debt					\$ 1,450,445	\$ 115,673	\$ 64,893	\$ 50,780	\$ 1,501,225	\$ 80,076
Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:										
	2011	2012	2013	2014	2015	2016-2020	2021-2025	2026-2030	Total	
Principal										
General Obligation Bonds	\$ 45,000	\$ 45,000	\$ 50,000	\$ 50,000	\$ 20,000	\$ 130,000	\$ 165,000	170,000	\$ 675,000	
Special Assessment Bonds									0	
Certificates of Participation									0	
Capital Leases									0	
Revenue Bonds	36,607	37,838	39,454	40,426	41,785	230,977	202,715	196,423	826,225	
No-Fund Warrants									0	
Temporary Notes									0	
Total Principal	81,607	82,838	89,454	90,426	61,785	360,977	367,715	366,423	1,501,225	
Interest										
General Obligation Bonds	31,530	29,980	28,380	26,550	24,675	107,625	73,125	23,925	345,790	
Special Assessment Bonds									0	
Certificates of Participation									0	
Capital Leases									0	
Revenue Bonds	27,467	26,235	24,963	23,648	22,288	89,389	52,436	16,169	282,595	
No-Fund Warrants									0	
Temporary Notes									0	
Total Interest	58,997	56,215	53,343	50,198	46,963	197,014	125,561	40,094	628,385	
Total Principal and Interest	\$ 140,603	\$ 139,053	\$ 142,797	\$ 140,623	\$ 108,748	\$ 557,991	\$ 493,276	\$ 406,517	\$ 2,129,610	